

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT POLICY**

**FOR**

**REAL ESTATE INVESTMENT MANAGER MONITORING PROGRAM –  
EXTERNALLY MANAGED**

**August 16, 2004**

*This Policy is effective immediately upon adoption and supersedes all previous external real estate investment manager monitoring policies.*

**I. PURPOSE**

This document sets forth the investment Policy (“the Policy”) for the External Real Estate Investment Manager Monitoring Program (“the Program”). External investment managers (“[Management Firms](#)”) are expected to invest the California Public Employees’ Retirement System’s (“the System”) assets in accordance with the specific guidelines included in their contracts. When Management Firms are retained, they may be given discretion over the selection of individual assets in a portfolio, subject to an approved matrix of investment guidelines. Management Firms also may have an ownership interest and co-investment.

**II. MONITORING OBJECTIVES**

Under the direction of the Board and senior management, the Investment Staff shall create and manage the implementation of investment strategies and policies in the System’s externally managed real estate investment portfolios.

The System may allocate assets to Management Firms for constructing an investment program that meets its overall performance objective. These assignments are made pursuant to a specific performance objective, risk profile, and implementation process for that portfolio designed to maximize the System’s total return versus the risk incurred. Ensuring that each portfolio achieves its strategic risk and return objective(s) within the established parameters, portfolios must be monitored for compliance with the criteria specific to its particular mandate.

Outlined below are the monitoring objectives of the Program:

- A. Evaluate whether Management Firms have achieved their stated investment objectives;

- B. Ensure that Management Firms adhere to their specific investment process; and
- C. Assess the impact of any significant Management Firm changes, such as staff, client base, structure, or ownership.

### III. RESPONSIBILITIES AND DELEGATIONS

- A. The **System's Investment Committee** ("Investment Committee") is responsible for approving and amending the Policy and delegates the responsibility for administering the Program to the Staff through the Delegation of Authority (Delegation Nos. 89-13 and 95-50).
- B. The **System's Investment Staff's** ("the Staff") duties include, but are not limited to, the following:
  - 1. Developing specific guidelines, outlining the Management Firm's strategy, portfolio characteristics, authorized investments and markets, benchmarks and performance objectives. These guidelines are part of the contractual agreement with each firm;
  - 2. Developing and recommending the Policy to the Investment Committee;
  - 3. Developing and maintaining a procedures manual subject to periodic reviews and updates outlining Staff operational procedures to be used in implementing this Policy;
  - 4. Implementing and adhering to the Policy;
  - 5. Recommending action concerning the Management Firms retained for implementing the Program in accordance with the Policy. The Investment Staff shall also recommend changes in the firm's contractual guidelines or any other aspects Staff considers pertinent; and
  - 6. Reporting to the Investment Committee, periodically, about the performance of the Program, and monitoring Policy implementation and compliance. Staff shall report all violations of the Policy to the Investment Committee, along with explanations and appropriate recommendations for corrective action.

- C. The Management Firm is responsible for all aspects of portfolio management as set forth in the firm's contract with the System and shall have the following duties:
  - 1. Communicate with the Staff as needed regarding investment strategy and investment results. The Management Firm is expected to monitor, analyze and evaluate performance relative to the agreed-upon benchmark.
  - 2. Cooperate fully with the System's Staff, the Custodian, and consultant(s) on requests for information.
- D. On request by the System, the Real Estate Pension Consultant shall be responsible for independently monitoring and evaluating the Management Firms. The Real Estate Pension Consultant shall report recommendations, if any, directly to the Investment Committee on a quarterly basis, in accordance with the terms of its contract.

#### **IV. MANAGEMENT FIRM EVALUATION**

The ongoing evaluation of Management Firm includes a periodic, written evaluation based on qualitative and quantitative criteria.

##### **A. Qualitative Criteria**

Qualitative monitoring involves reviewing organization aspects: ownership, staffing, growth, client service, investment approach, business risk, and regulatory issues. Consideration will also be given to the financial strength of the investment management organization, the level of client service given the System, and changes within the managing organization such as the continuity of personnel assigned to the System's investments.

##### **B. Quantitative Criteria**

Quantitative monitoring requires analysis concerning the implementation of the investment approach: asset selection, performance, and portfolio risk.

##### **C. Contract Review Status**

When quantitative or qualitative factors evaluating Management Firms deteriorate, appearing likely to affect long-term overall performance, the Management Firm shall be placed on Contract

Review Status. The three levels of Contract Review Status are Watchlist, Probation, and Dismissal, and are outlined as follows:

1. **Watchlist status** indicates an increased level of concern, but does not indicate major deficiencies. A recommendation for Watchlist status shall designate a period to assess the capabilities and quality of a manager's operations. Management Firms shall typically remain on Watchlist for performance-related issues or organizational changes for up to one year in order to ensure that outstanding issues are resolved. Management Firms not correcting their outstanding issues in a timely manner shall advance to a more critical phase of Contract Review – Probation Status or Dismissal.
2. **Probation** status indicates a level of serious deficiency. It indicates a need for more frequent contact with the firm to monitor closely conditions leading to its placement on Probation.
3. **Dismissal** - Staff shall recommend dismissal of a manager if adequate improvement in the areas outlined in the Plan of Action has not been made. However, the Staff may recommend dismissal for any reason upon a thirty-day notice to the manager.

## V. GLOSSARY OF TERMS

The Real Estate Glossary of Terms is referenced in the System's Master Glossary of Terms.